



HF 625 – School Tuition Organization Tax Credit (LSB 2259HV)
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Fiscal Note Version – New

Description

House File 625 increases the School Tuition Organization (STO) Tax Credit annual cap from \$8.75 million to \$12.0 million effective tax year 2014. This bill also amends the STO Tax Credit to allow a contribution made by a partnership, limited liability company, S Corporation, estate or trust electing to have the income taxed directly to the individual to qualify for the tax credit. This provision of the Bill is retroactive to January 1, 2013.

Background

The STO Tax Credit is an income tax credit allowed for voluntary contributions to private nonprofit school tuition organizations that award tuition scholarships to eligible students to attend qualified nonpublic elementary or secondary schools in this state. The credit is equal to 65.0% of the amount contributed and it is allowed for cash and noncash contributions. The tax credit was created in **SF 2409** (STO Tax Credit Act of 2006) with a tax year 2006 maximum of \$2.5 million and a maximum for future fiscal years of \$5.0 million.

Assumptions

- The historical timeframe associated with tax credit awards and tax credit redemptions will not change.
- The full tax credit cap will be awarded each year.
- The STO Tax Credit is nonrefundable.
- Nonrefundable tax credits reduce the statewide yield from the local option income surtax for schools by 2.7% of the State General Fund impact.

Fiscal Impact

The \$3.25 million increase in the annual STO Tax Credit maximum is projected to reduce net General Fund revenue by the following amounts:

- FY 2015 = \$ -2.45 million
- FY 2016 = \$ -3.08 million
- FY 2017 = \$ -3.19 million
- FY 2018 = \$ -3.25 million

The impact continues beyond FY 2018 at a negative \$3.25 million per fiscal year.

As a nonrefundable tax credit, the STO Tax Credit will also reduce the statewide yield from the local option income surtax for schools by \$88,000 per tax year.

Source

Department of Revenue

/s/ Holly M. Lyons

April 8, 2013

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
